School for Traders & Investors

Fourteenth Lesson

Market Study From the Office Trader's Standpoint

WE are constantly hearing that the market is not the same as it used to be. In only one sense is that true, so far as I can see. The improvement in trading facilities has become very marked. As long ago as I can remember, there were office traders—a few of them—but they worked under difficulties which none but the older of us could imagine now.

The market has become so large a proposition, and is the resultant of the action of so many minds, that it may be studied as an organism by the proper use of the price and volume material that is accessible to every office trader. I am convinced that it would pay a good many traders who are now floundering aimlessly around, to stop trading altogether and undergo a course of study. I had to do it myself! And it is well worth while, in view of the possibilities open to the properly equipped trader.

Preparation Needed

In my opinion every trader should spend several months in his brokers's office before he makes a single trade, all the time watching the market and recording the transactions in certain ways. He must also accumulate records of past transactions, mostly in the form of charts. The trader's object is to know—to know positively and definitely, not to guess—what the market has done for a considerable time past, so as to have a clear appreciation of its present technical position so far as he can detect it. Nothing is more amazing than the ignorance of the majority of office habitués of such matters, and their apparent unwillingness to remedy their deficiencies.

It is to be remembered that the trader's concern is with prices, and his object is to anticipate, if he can, which way prices will move next, and to detect the moment at which the process begins. From observation of the present action of the market, combined with knowledge of recent moves, it is possible for the experienced trader to make a plausible guess as to the probable immediate outlook.

Beyond this, however, no one can go without a study of matters altogether aside from those affecting traders. Such study is likely to have a positively injurious effect on the trader's judgment by causing him to regard prices in their relation to prospective distant changes, which makes him not a trader at all. No matter how interesting the study of such matters may be, it is a detriment to the trader by causing him to disregard, measurably, the present fluctuations, which are the things that really concern him.

The trader needs to study the market in two ways simultaneously. He must not only observe price changes, as such, but must have an insight into what is known as the temper of the market. The experienced trader gradually acquires a certain intuition, which gives him information of a peculiarly valuable kind, which is not easy to describe in words. However he arrives at it, it is unquestionably the fact that he can feel the shadow of coming events before they are manifested on the tape. He is one of a large number of men who are watching the market with the intention of jumping at the psychological moment. His success will depend upon his ability to jump first. In a sense such feelings are the result of that kind of accumulated memory which we call experience.

The other way of regarding the market is derived from study of its past action, in recorded shape—charts. The idea is that hundreds of people are constantly watching the market, and as soon as a particular position arises they will expect it to work out in a particular way. The activity of all these people temporarily defeats its own object. Their efforts create what is known as the technical position, and that is the object of the trader's special attention.

Records Should Be Kept

The experienced trader has a general knowledge of these points in his mind all the time, but constantly needs something more comprehensive and accurate than a mere impression. This is why he should keep records, preferably in the form of charts. Such charts and other records do not cramp his judgment so long as he accustoms himself from the start only to use them as aids and not as substitutes for judgment. He will find abundant necessity to check these indications by considering things which cannot be made matters of formal or methodical record.

Undoubtedly the skilful trader depends more upon his judgment than anything else in making his commitments. But his judgment is, in fact, largely the accumulated remembrance of matters which he either has tabulated or would be better off if he had. Occasions are constantly arising when he would be saved money if he could refer to an appropriate and comprehensive record. Almost any method of trading which the beginner can evolve is likely to be the result of some form of chart study. He will necessarily have to depend largely upon his records to guide his operations, and they will deceive him, frequently. That is unavoidable. As his experience increases he will be able, more and more, to check his records by his observation of the action of the market, and so find himself acquiring practical market judgment. As a matter of fact, almost all traders who make money beome specialists in diagnosing certain features of market action, and they base their trades upon the conclusions derived from such features.

Long Practical Training Necessary

Probably no one is less able to recognize a thing by sight than is the beginner visiting a broker's office for the first time able to tell what is happening as he sees the prices being put up on the board. Reading the market, that is to say judging, from its action as recorded on the tape, the state of trading feeling and the existing technical position, is a matter requiring long practical training and continuous work. The trader who desires to succeed must learn to recognize the characteristics of the market in

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IMPORTANT

Special attention is called to the article on page 886 entitled "Which Stocks Offer the Best Opportunities?" This article gives a bird's-eye view of the security situation, with many valuable suggestions to investors.

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action—whether strong or weak, broad or narrow, steady or nervous, active or dull, etc., and when a particular movement stops, to judge whether it is a culmination or simply a waiting place.

The trader must train himself into a kind of double personality. In forming his judgments and making his decisions he must employ to the utmost all the intellectual powers which he possesses. Having reached a decision, however, and given his order, he straightway should become more or less of a machine and conduct the technical details appertaining to the trade without any emotions whatever.

It is also necessary to understand what may be called the typical action of the market. A good part of the time it is in what may be called a "trading position." That is to say, it is swinging up and down within certain more or less narrow limits, during which stocks are being accumulated or distributed. When circumstances warrant, it makes a longer move, up or down, to a new range of prices. The trader has to be constantly trying to detect signs of the imminence of these moves, in the meantime "milking" the market for incidental profits. These incidental profits form a large part of his whole results.

How Long It Should Take

How long it should take a beginner to be able to recognize the significant features of market action to an extent warranting him in making a commitment it is impossible to say. In any case several months should be allowed, because in a shorter time not all of the principal varieties of action will have been shown often enough to be recognized. Nor will he have acquired the habit of concentration to a sufficient extent. It would hardly be feasible to wait until the market had gone through a complete cycle, and hardly necessary, for the reason that the minor movements greatly resemble the major ones in all but extent. When considerable experience has been gained it will be found that even normal rallies and reactions follow the same course, only on a much diminished scale, and frequently only in a few stocks at a time. But the underlying principles of market movements seem to be always the same.

An important difficulty which the trader must overcome is to observe the proper connection between recorded data, such as charts, and the thing recorded. A chart can show, for example, a three days' rise, and it can show how the rise was accomplished in regard to the amount of stock, etc., but it cannot show the temper of the market at the same time. The experienced trader, seeing a stock rise, can to some extent tell whether it is being "marked up" or whether it rises as a result of urgent actual buying. Such points, and there are many of them, can only be observed and interpreted with any degree of confidence by the trader of considerable experience.